Ontario

Ontario Financing Authority
Bulletin

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2008-09 First Quarter Ontario Finances

July 3, 2008

Fiscal Outlook

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- In the 2008 Budget, the government outlined a fiscal plan that projected a $0.6 billion surplus in 2007-08, and ongoing balanced budgets between 2008-09 and 2010-11.
- The 2008-09 first-quarter results indicate that the government remains on track to achieve the balanced budget outlook presented in the 2008 Budget. The revenue outlook, at $96.9 billion, and the total expense outlook at $96.2 billion, are both unchanged from the fiscal outlook presented in the 2008 Budget.
- Risks to the 2008-09 revenue outlook include a decline in the private-sector average outlook for real economic growth in calendar-year 2008 and risks to Corporations Tax revenues related to write-offs in the financial sector. The revenue outlook, however, remains prudent with respect to other economic indicators including growth in 2008 wages and salaries, as well as retail sales.
- The 2008-09 current outlook continues to include a $0.8 billion reserve to help protect the fiscal plan against adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance. As well, the government remains prudent and disciplined in its approach to managing the Province's finances.
- The consensus forecast now predicts slower economic growth for Ontario than was predicted in the 2008 Budget. However it is still too early in the fiscal year to determine how this will affect the Province's revenue and expense outlook. Therefore, the government will continue to closely monitor risks to the economic and fiscal outlook, working to ensure fiscal targets are met. The Province will also continue to make investments that support the five-point economic plan for growth and job creation in Ontario.
- Final results for 2007-08 will be presented later in the summer in the Ontario Public Accounts. The 2007-08 Ontario Public Accounts will confirm whether the $0.6 billion surplus projected in the 2008 Budget has been achieved, and whether the new *Investing in Ontario Act, 2008*, will be applied.
- Updated information on the Province's medium-term fiscal outlook, including the management of the fiscal plan in the face of slower-than-anticipated economic growth, will be provided in the 2008 Economic Outlook and Fiscal Review later this fall.

Fiscal Summary ($ Billions)	**Interim 2007-08**	**2008–09**		
		Budget Plan	**Current Outlook***	**In-Year Change**
Revenue	**96.6**	**96.9**	**96.9**	—
Expense				
Programs	87.0	87.3	87.3	—
Interest on Debt	9.0	8.9	8.9	—
Total Expense	**96.0**	**96.2**	**96.2**	—
Reserve	–	0.8	0.8	—
Surplus/(Deficit)	**0.6**	**0.0**	**0.0**	—

Note: Numbers may not add due to rounding. * First quarter fiscal forecast as at June 30, 2008.

This bulletin was compiled by the Ontario Financing Authority. This information is intended for general information purposes only and does not constitute an offer to sell or a solicitation of offers to purchase securities. It has not been approved by any securities regulatory authority and it is not sufficient for the purpose of deciding to purchase securities. It may have errors or omissions resulting from electronic conversion, downloading or unauthorized modifications. Statements in this bulletin may be "forward-looking statements" within the meaning of the U.S. *Private Securities Litigation Reform Act of 1995*. Such forward-looking statements involve uncertainties, risks, and other factors which could cause the state of Ontario's economy to differ materially from the forecasts and economic outlook contained expressly or implicitly in such statements. The Province of Ontario undertakes no obligation to update forward-looking statements to reflect new information, future events or otherwise, except as may be required under applicable laws and regulations. While the information in this bulletin, when posted or released, was believed to be reliable as of its date, **NO WARRANTY IS MADE AS TO THE ACCURACY OR COMPLETENESS OF THIS DOCUMENT OR THE INFORMATION IT CONTAINS.**

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Reserve	–	0.8	0.8	—
Surplus/(Deficit)	**0.6**	**0.0**	**0.0**	—

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Economic Outlook

- Ontario's growth is expected to be modest in 2008, following an increase of 2.2 per cent in 2007. Ontario's economy continues to be challenged by external factors including weak U.S. demand and the related turbulence in financial markets, rapidly rising oil prices, the ongoing high value of the Canadian dollar, increased competition from newly industrialized economies and restructuring in the auto sector.
- The outlook for 2008 has deteriorated since the March Budget, largely reflecting the unexpected rise in oil prices and weaker-than-expected U.S. demand for Ontario's exports. As of June 27, private-sector forecasters, on average, project Ontario real GDP growth of 0.6 per cent in 2008, down from 1.2 per cent at the time of the 2008 Budget.
- The Ministry of Finance's assumption for real GDP growth in the 2008 Budget (1.1 per cent) was below the average private-sector forecast at that time.
- Private-sector forecasters, on average, expect nominal GDP (measured in current dollars) to increase by 2.7 per cent in 2008, down from 3.0 per cent at the time of the Ontario Budget.

Economic Highlights

- Ontario's real GDP edged down 0.3 per cent (1.4 per cent annualized) in the first quarter of 2008. The decline in real GDP was due mainly to a significant run-down in business inventories, lower business investment and continuing weakness in exports.
- Ontario employment increased by 11,200 net new jobs in May, following a gain of 12,200 in April. The unemployment rate was 6.4 per cent. Since December, employment has increased by 80,700 net new jobs. In 2007, Ontario employment increased by 101,100 net new jobs for a 1.6 per cent gain.
- Over the first four months of 2008, Ontario retail sales are 6.5 per cent higher than during the same period in 2007.
- The Ontario annual CPI inflation rate was 1.8 per cent in May (year to year), up from 1.3 per cent in April. Excluding energy prices, which increased 8.9 per cent in May from a year earlier, CPI inflation was 1.1 per cent in May, up from 0.8 per cent in April.
- In April, Ontario home resales were down 4.8 percent from the same month a year ago to 20, 174 units, marking the fifth consecutive monthly decline. Over the first four months of 2008, Ontario home resales are down 9.3 percent from the same period last year to 60,566 units. Average resale prices are up 4.8 percent so far this year.
- Ontario housing starts decreased 7.0 per cent in May to 71,200 units, declining for the third consecutive month. On a year-to-date basis, urban-area housing starts are 21.4 per cent higher over the first five months of this year compared to the same period in 2007.
- The value of Ontario manufacturing sales increased 1.4 per cent in April to $22.9 billion. Over the first four months of 2008, Ontario manufacturing sales are down 9.0 per cent from the same period last year.
- In April, the value of Ontario international exports increased 2.0 per cent (Ministry of Finance estimate) while imports rose 7.0 per cent. So far this year, Ontario international exports are down 14.3 per cent from the same period last year while imports are down 7.5 per cent.

Borrowing Update

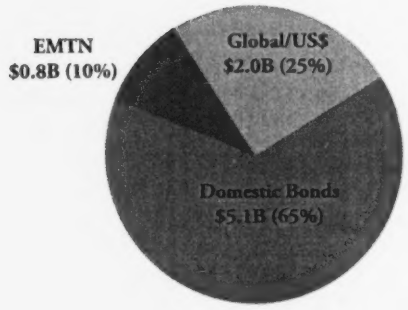
2008–09 Borrowing Program ($ Billions)	Interim 2007–08	Budget Plan	Current* Outlook	In-Year Change
Deficit/(Surplus)	(0.6)	0.0	0.0	—
Non-Cash Adjustments	(0.3)	(0.9)	(0.9)	—
Investment in Capital Assets	3.6	4.9	4.9	—
Net Loans/Investments	2.3	1.3	1.1	(0.2)
Debt Maturities	13.5	20.5	20.5	—
Debt Redemptions	1.3	1.0	1.0	—
Total Funding Requirement	**19.8**	**26.9**	**26.7**	**(0.2)**
Canada Pension Plan Borrowing	(0.3)	(0.6)	(0.5)	0.1
Decrease/(Increase) in Short-Term Borrowing	(1.4)	(2.0)	(2.0)	—
Increase/(Decrease) in Cash and Cash Equivalents	(0.2)	(0.0)	(0.2)	0.2
Total Long-Term Public Borrowing Requirement	**18.0**	**24.3**	**24.3**	—

Note: Numbers may not add due to rounding. * First quarter fiscal forecast as at June 30, 2008.

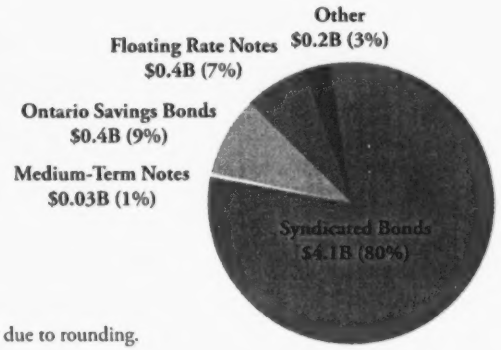
The $0.2 billion decrease in net loans/investments is mainly due to a decrease in loans to Ontario Power Generation (OPG) and Ontario Student Loan Trust (OSLT), partially offset by an increase in loans to colleges. The $0.1 billion in Canada Pension Plan (CPP) financing was used by the Province to buyback more expensive outstanding debt, thereby making this amount unavailable for the Province's long-term borrowing requirements.

Borrowing Approach

All Markets
Total - $7.9 billion



Domestic Market
Total - $5.1 billion



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- The interim long-term public borrowing requirement for 2008-09 is $24.3 billion. As at June 30, 2008, $7.9 billion of the program had been completed, including two U.S. dollar Global bonds for a total of $2.0 billion, as well as Euro-Medium Term Notes denominated in Sterling (£200 million) and Swiss Francs (CHF425 million).
- The Province will continue to maintain a flexible approach to borrowing, monitoring both domestic and international markets. Approximately 25 per cent of the program will be raised internationally, depending on the availability of cost-effective borrowing opportunities.
- Credit rating agencies continue to rate Ontario's debt highly (Aa1 Moody's / AA S&P, DBRS) due to a large diversified economy that has generated strong revenue growth in the face of significant external challenges in recent years.

Medium–Term Borrowing Outlook

Province and OEFC

($ Billions)

	2008-09	2009-10	2010-11
Deficit/(Surplus)	0.0	0.0	0.0
Non-Cash Adjustments	(0.9)	(1.7)	(1.9)
Investment in Capital Assets	4.9	6.0	7.1
Net Loans/Investments	1.1	0.8	0.5
Debt Maturities			
Currently Outstanding	20.5	14.6	10.5
Incremental Impact of Future Financing	—	—	1.7
Debt Redemptions	1.0	1.0	1.0
Total Funding Requirement	**26.7**	**20.6**	**18.9**
Canada Pension Plan Borrowing	(0.5)	(0.7)	0.0
Decrease/(Increase) in Short-Term Borrowing	(2.0)	0.9	0.4
Increase/(Decrease) in Cash and Cash Equivalents	0.2	0.0	0.0
Total Long-Term Public Borrowing Requirement	**24.3**	**20.9**	**19.4**

Note: Numbers may not add due to rounding. * First-quarter fiscal forecast as at June 30, 2008.

Refinancing maturing debt and funding capital investments are the primary components of the medium-term borrowing outlook.

Economic Outlook

- Ontario's growth is expected to be modest in 2008, following an increase of 2.2 per cent in 2007. Ontario's economy continues to be challenged by external factors including weak U.S. demand and the related turbulence in financial markets, rapidly rising oil prices, the ongoing high value of the Canadian dollar, increased competition from newly industrialized economies and restructuring in the auto sector.
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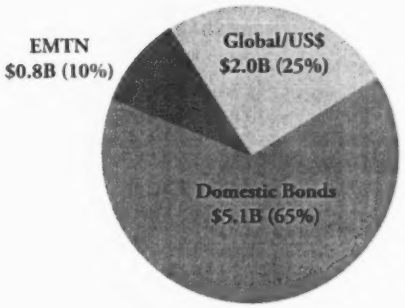

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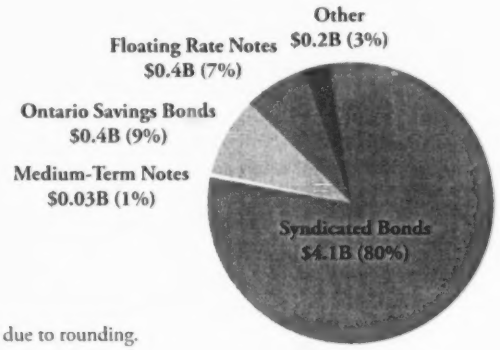

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Province and OEFC

($ Billions)

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Increase/(Decrease) in Cash and Cash Equivalents	0.2	0.0	0.0
Total Long-Term Public Borrowing Requirement	**24.3**	**20.9**	**19.4**

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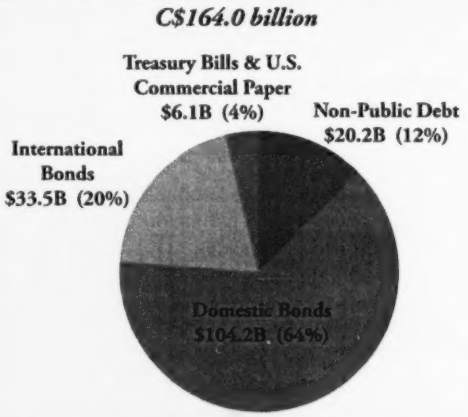
Refinancing maturing debt and funding capital investments are the primary components of the medium-term borrowing outlook.

Debt Portfolio

- Total debt of $164.0 billion is composed of bonds issued in both the short- and long-term public capital markets and non-public debt.
- Public debt totals $143.8 billion, primarily consisting of bonds issued in the domestic and international long-term public markets in 11 currencies.
- Ontario also has $20.2 billion outstanding in non-public debt issued in Canadian dollars. Non-public debt consists of debt instruments issued to public-sector pension funds in Ontario and the Canada Pension Plan Investment Board (CPPIB).

International Bonds issued in the following currencies:

- Canadian dollar
- U.S. dollar
- Euro
- Swiss franc
- New Zealand dollar
- U.K. Sterling
- Japanese yen
- Australian dollar
- South African rand
- Hong Kong dollar
- New Turkish lira


C$164.0 billion
Treasury Bills & U.S. Commercial Paper $6.1B (4%)
Non-Public Debt $20.2B (12%)
International Bonds $33.5B (20%)
Domestic Bonds $104.2B (64%)

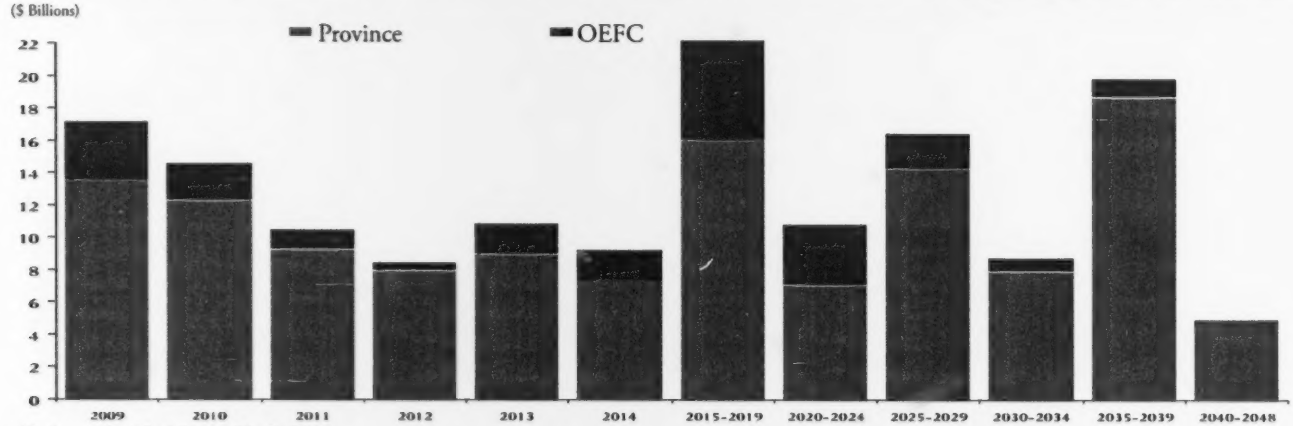
Debt Statistics

Debt	
Total Debt	$164.0 billion
Net Debt[1]	$146.2 billion
Accumulated deficit[1]	$106.2 billion
Net Debt[1]/GDP	24.4%
Accumulated deficit[1]/GDP	17.7%
Debt Statistics	
Percentage Publicly Held	87.7%
Percentage Issued in Canadian Dollars	83.0%
Effective Interest Rate (Weighted Average), Interim as at March 31, 2008.	5.8%

Risk Exposure (% of debt)	Current	Policy Limit
Province		
Net Interest Rate Resetting Exposure	14.8	35.0
Foreign Exchange Exposure	0.1	5.0
OEFC		
Net Interest Rate Resetting Exposure	25.0	35.0
Foreign Exchange Exposure	0.0	5.0

Total debt represents consolidated non-public and publicly held debt. Net debt represents the difference between total liabilities and total financial assets. As at May 31, 2008. [1] Projected to March 31, 2009.

Debt Maturities



Fiscal year ending March 31; as at May 31, 2008.

Excludes short-term debt and other liabilities and the incremental impact of future financing. Assumes issues with options will be retired at the earliest possible date.

The Ontario Financing Authority is an agency of the Province of Ontario responsible for provincial borrowing and debt management activities.

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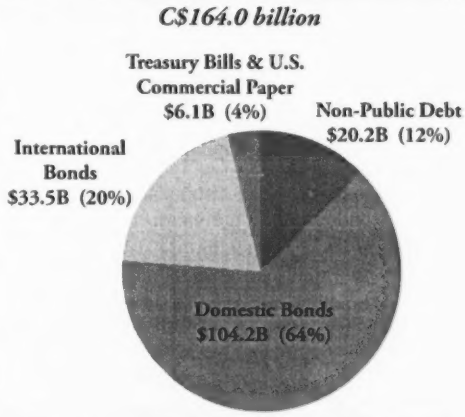
- Australian dollar
- South African rand
- Hong Kong dollar
- New Turkish lira



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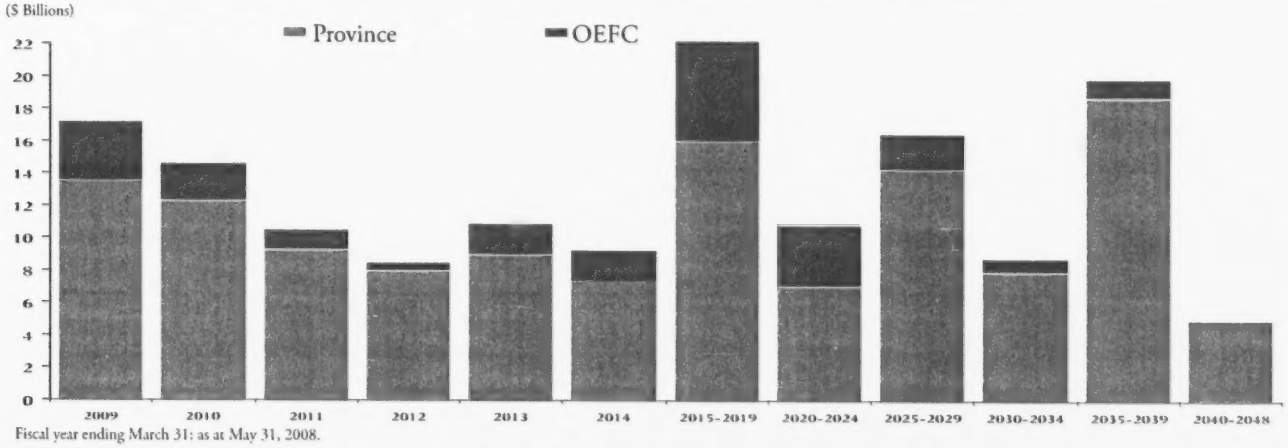

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